

## Message Text

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ACTION EB-11

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FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 4118

INFO AMCONSUL BRISBANE

AMCONSUL MELBOURNE

AMCONSUL PERTH

AMCONSUL SYDNEY

AMEMBASSY TOKYO

UNCLAS CANBERRA 6180

E.O. 11652: N/A

TAGS: EMIN, ENRG, EINV, AS

SUBJ: 1974-75 BUDGET'S IMPACT ON MINING AND PETROLEUM INDUSTRY

1. SUMMARY: 1974-75 BUDGET WILL INCREASE TAXES ON MINING-PETROLEUM COMPANIES IN LINE WITH ESTABLISHED GOA POLICY. DIFFICULT TO ASSESS, HOWEVER, LONG TERM EFFECTS OF HARSHER TREATMENT OF LOCAL INDUSTRY BY PRESENT GOVERNMENT BECAUSE OF CHANGES OVERSEAS. END SUMMARY.

2. IN SEPTEMBER 17 BUDGET SPEECH (REPORTED SEPTTEL), TREASURER CREAN OUTLINED SEVERAL FISCAL CHANGES WHICH WILL SUBSTANTIALLY RAISE GOA'S TAX-TAKE FROM MINING (EXCEPT GOLD) AND PETROLEUM COMPANIES. INCOME TAX LAW WILL BE AMENDED TO BAR FAST DEPRECIATION OF COMPANIES' CAPITAL INVESTMENT AND REQUIRE DEDUCTIONS OF FUTURE CAPITAL EXPENDITURES AGAINST TAXABLE INCOME TO BE MADE THROUGHOUT ESTIMATED LIFE OF MINE OR WELL, WITH MAXIMUM PERIOD OF 25 YEARS. CAPITAL SPENDING ON FACILITIES FOR TRANSPORTING MINERALS WILL NOW BE DEDUCTIBLE OVER 20 RATHER THAN 10 YEAR PERIOD, AS UNCLASSIFIED

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AT PRESENT. COMPANIES WILL NOT BE ALLOWED TO DEDUCT CAPITAL

EXPENDITURES RELATED TO COMPANY FORMATION AND CAPITAL RAISING. IN ADDITION, PRESENT EXEMPTION (UNDER SECTION 26A OF INCOME TAX LAW) OF 20 PERCENT OF INCOME DERIVED FROM PRODUCTION OF SPECIFIED MINERALS, NOTABLY COPPER, BAUXITE, NICKEL AND MINERAL SANDS, WILL BE ENDED AS OF JULY 1, 1974.

3. CREAN ALSO SAID THAT FUTURE MINING EXPLORATION (IN CONTRAST TO CAPITAL) EXPENDITURES WILL BE ALLOWABLE AS IMMEDIATE DEDUCTIONS AGAINST INCOME UP TO LEVEL OF INCOME DERIVED IN ANY YEAR FROM MINING AND ASSOCIATED ACTIVITIES IN SAME WAY PETROLEUM EXPLORATION COSTS ARE DEDUCTED. (THIS IS RATHER MINOR CHANGE APPARENTLY INTENDED TO IMPROVE DEPRECIATION TREATMENT OF EXPLORATION COSTS, PARTICULARLY FOR MORE DIVERSIFIED COMPANIES HAVING INCOME FROM MINING OPERATIONS CONCURRENT WITH EXPLORATION OUTLAYS.) PROSPECTING AND OTHER ACTIVITIES BY GENERAL MINING COMPANIES ON AUSTRALIA'S CONTINENTAL SHELF WILL BE REGARDED AS HAVING BEEN CARRIED OUT IN AUSTRALIA, CONSISTENT WITH TAX TREATMENT OF OFFSHORE PETROLEUM OPERATIONS. (THIS PROVISION IS EVIDENTLY AIMED AT NOTIFYING FUTURE OFFSHORE MINERS - THERE IS NOW NO OFFSHORE MINING - THAT GOA CLAIMS RIGHT TO TAX THEM THE SAME AS IT DOES PRESENT OFFSHORE PETROLEUM OPERATORS.)

4. CREAN ANNOUNCED FY1975 APPROPRIATIONS OF A\$50 (APPROXIMATELY US\$74) MILLION FOR GOA'S CONTROVERSIAL NEW PETROLEUM AND MINERALS AUTHORITY AND A\$75 MILLION FOR GOVERNMENT'S PIPELINE AUTHORITY TO FINANCE MOOMBA, S.A. TO SYDNEY GAS PIPELINE. NEW 2 CENT PER LITRE TAX ON LIQUEFIED PETROLEUM GAS (LPG) USED IN VEHICLES WAS ALSO REVEALED.

5. EMBASSY COMMENT: BUDGET'S LARGELY UNFAVORABLE IMPACT ON MINING-PETROLEUM SECTOR WAS FULLY EXPECTED BY INDUSTRY. FITZGERALD REPORT, WHICH MINERALS AND ENERGY MINISTER CONNOR RELEASED DURING MAY 18 ELECTION CAMPAIGN, HAD SHARPLY CRITICIZED FAST DEPRECIATION OF COMPANIES' CAPITAL EXPENDITURES AS COSTLY GIMMICK THAT ALLOWED LARGE MINING COMPANIES TO AVOID PAYING TAXES FOR MANY YEARS AFTER START-UP OF OPERATIONS EVEN THOUGH THEY MAY HAVE HAD SIZEABLE PROFITS. HARSHER DEPRECIATION RULES WILL APPLY ONLY TO NEW EXPENDITURES. INDUSTRY SOURCES EXPECT THEM TO HAVE DEPRESSIVE EFFECT ON FUTURE MINERALS DEVELOPMENT. NO ESTIMATE AVAILABLE ON PROBABLY COST TO INDUSTRY OF RULE CHANGE, BUT IT WILL UNDOUBTEDLY UNCLASSIFIED

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BE SERIOUS. END OF SECTION 26A EXEMPTION WILL BE LESS COSTLY TO INDUSTRY BUT STILL SIGNIFICANT. (ONE INDUSTRY SPOKESMAN ESTIMATES COMPANIES WILL HAVE TO PAY AN ADDITIONAL A\$14 MILLION IN TAXES A YEAR, ALTHOUGH MELBOURNE AGE WRITER PUBLISHED UNDOUBTEDLY EXAGGERATED ESTIMATE OF A\$80 MILLION A YEAR. AUSTRALIAN MINING INDUSTRY COUNCIL SPOKESMAN ESTIMATES THAT END OF SECTION 26A EXEMPTION WILL INCREASE COMPANIES' TAX PAYMENTS TO GOA BY ABOUT 18 PCT. AND THEIR OVERALL CONTRIBUTIONS TO ALL AUSTRALIAN

GOVERNMENTAL AUTHORITIES BY ABOUT 6 PCT.)

6. AUSTRALIAN MINING INDUSTRY UNDERSTANDABLY UNHAPPY OVER THIS LATEST ADVERSE GOA MOVE. IT IS THE LATEST IN A SERIES OF DEVELOPMENTS WHICH INCLUDE THE PREVIOUS TERMINATION OF OIL SEARCH SUBSIDIES. IN ADDITION, THE REVALUATIONS DURING THE PAST TWO YEARS OF THE AUSTRALIAN DOLLAR HAVE NATURALLY REDUCED THE EXPORT RETURNS OF THE INDUSTRY AND IMPAIRED ITS INTERNATIONAL COMPETITIVE POSITION. IN ADDITION, THIS REMOVAL OF MINING TAX BENEFITS COMES ON TOP OF THE UNRELATED, BUT EQUALLY UNWELCOME, STEPS BY THE QUEENSLAND GOVERNMENT TO RAISE MINING ROYALTIES.

7. WHILE THE POSITION OF THE MINING AND PETROLEUM COMPANIES IN AUSTRALIA IS MUCH LESS FAVORABLE IN AN ABSOLUTE SENSE NOW THAT WAS THE CASE PRIOR TO 1972, IT IS MORE DIFFICULT TO ASSESS ITS LONG-TERM PROSPECTS. OBVIOUSLY NUMEROUS CHANGES HAVE BEEN OCCURRING DURING THE SAME PERIOD IN THE SITUATION OF THE MINING INDUSTRY IN OTHER COUNTRIES AS WELL. THE EXISTING INDUSTRY REMAINS PROFITABLE, AND IS STILL COMPETITIVE ON WORLD MARKETS. BUT IT CAN HARDLY BE DOUBTED THAT PREVIOUS GOA MEASURES IN THE INDUSTRY, PARTICULARLY THE VARIOUS MOVES TO REDUCE THE SHARE OF FOREIGN PARTICIPATION, HAVE ADVERSELY AFFECTED THE LEVEL OF NEW EXPLORATION AND DEVELOPMENT, AND THE ADDITIONAL IMPACT OF THESE TAX MEASURES MUST IN SOME DEGREE FURTHER REDUCE THE INCENTIVES TO NEW DEVELOPMENT.

8. FOR THE SHORT TERM IT IS OBVIOUS THAT RELATIONS BETWEEN GOA AND THE MINING INDUSTRY WILL REMAIN STRAINED AND WE EXPECT THE TREATMENT OF THE EXTRACTIVE SECTOR WILL CONTINUE TO BE A SIGNIFICANT POLITICAL ISSUE.  
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